INTERIM REPORT 1987

SECOND QUARTER

And Six Months Ended June 30

NOVA, AN ALBERTA CORPORATION

Consolidated Financial Highlights

(Unaudited; thousands of dollars except for share data)

	Three Months Ended June 30 1987	Three Months Ended June 30 1986	Six Months Ended June 30 1987	Six Months Ended June 30 1986
Statement of Income				
Operating revenue	$528,357	$639,399	$1,070,337	$1,428,320
Net operating income	$133,403	$165,068	$ 243,433	$ 296,196
Net income	$ 45,030	$ 37,033	$ 78,587	$ 63,290
Preferred share dividend entitlement	$ 13,084	$ 21,292	$ 33,744	$ 42,358
Net income available to common shareholders	$ 31,946	$ 15,741	$ 44,843	$ 20,932
Share Data				
Earnings per common share				
Basic	$ 0.19	$ 0.12	$ 0.28	$ 0.16
Fully diluted	$ 0.19	$ 0.12	$ 0.27	$ 0.16
Dividends paid per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.20
Average number of common shares outstanding (thousands)			162,727	132,196

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NOTICE OF ANNUAL MEETING

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REPORT TO SHAREHOLDERS

Chief Executive's Mid-year Review

In mid-summer 1987 we are starting to see good results from restructuring, refinancing and recruiting actions begun in 1986.

Prices of commodities have continued to fluctuate and stay relatively low. We do see polyethylene price strengthening in the second half of 1987 and the prospect of natural gas price bottoming in 1988.

In the meantime, cost saving in operations, increased production capacity, restructured investments and the management contributions of new and long-term colleagues and employee efforts generally have been working NOVA part way back to an appropriate return on our large capital base.

Earnings and share price are gradually moving up.

Financial Review

Consolidated net income of $78.6 million for the six months ended June 30, 1987, was up $15.3 million or 24% from the $63.3 million reported for the comparable period in 1986.

Fully diluted earnings per share were 27 cents compared with 16 cents in 1986. Basic earnings per share were 28 cents on a total of 162.7 million average common shares outstanding, compared with 16 cents on a total of 132.2 million shares in 1986. The large increase in the number of outstanding shares occurred from conversion of convertible preferred shares and warrants as the market price of the common shares increased during the period.

For the three months ended June 30, 1987, net income was $45.0 million or 19 cents a share, both basic and fully diluted, compared with $37.0 million or 12 cents a share, both basic and fully diluted, in 1986.

The increase in net income occurred principally from the Corporation's polyethylene business, which achieved higher production volumes and benefited from reduced natural gas feedstock costs. There were also increases in demand and higher profit margins for other manufacturing operations. Steady earnings continued from all cost-of-service operations.

In the petroleum sector, higher crude oil prices in upstream operations were offset by lower margins from downstream operations and lower natural gas prices. NOVA's investment in Husky Oil Ltd., representing 24.4% effective ownership, has been recorded on the equity basis. Under this method of accounting, the Corporation's share of Husky's income is included as "equity in earnings of affiliated companies."

The deconsolidation of Husky significantly affects the comparability of the consolidated financial statements with prior periods. To make the comparison easier, certain condensed financial information for Husky at June 30, 1986, has been included on the inside back cover of this report.

Consolidated operating revenue was $1,070.3 million, down $358.0 million. Husky contributed operating revenue of $324.3 million in 1986. Lower natural gas selling prices have reduced operating revenue in gas transportation and marketing. This reduction has little effect on the Corporation's net income. In petrochemicals, higher volumes at the Joffre polyethylene plant and improved prices were augmented by sales from the polyethylene plant near Sarnia.

Net operating income of $243.4 million was down $52.8 million from the comparative period in 1986. The improvement in petrochemicals of $33.8 million was offset by reduced returns in certain gas transportation operations. Husky's contribution in 1986 was $80.6 million.

NOVA's share of earnings in affiliated companies, accounted for on the equity basis, was $7.6 million, compared with a loss of $8.4 million in 1986.

Net interest expense of $122.4 million, compared with $146.5 million for 1986, was down $24.1 million, due to a reduction in the average outstanding debt and lower interest rates.

Income tax expense was $34.2 million, down from $49.6 million in 1986. Husky provided income taxes of $26.5 million in 1986.

Funds from operations for the period were down $78.2 million to $201.6 million compared with $279.8 million in 1986. Improvements in our polyethylene business helped offset the deconsolidation of Husky's 1986 contribution of $129.0 million.

In May NOVA's financial status was improved significantly by the receipt of $359 million from the partial sale of its investment in Husky and by the conversion of $250 million of preferred equity into permanent common equity of the Corporation. Cash received from the Husky sale was used to reduce long-term debt. As a result of these transactions and the improved earnings trend, the rating for NOVA's unsecured debentures has advanced to the single "A" category.

In June the Corporation declared the regular quarterly dividend of 10 cents per share on the outstanding non-voting Class "A" common shares. The dividend is payable on August 15, 1987, to shareholders of record at the close of business on July 31, 1987.

Share Redemption

In July the Corporation issued notices for the redemption of:

—the 15% Cumulative Redeemable First Preferred Shares on August 15, 1987, at the stipulated redemption price of $26.50 per share, and

—the 6½% Cumulative Redeemable Convertible Second Preferred Shares on August 24, 1987, at the stipulated redemption price of $25.75.

Holders of these securities should review in detail the formal notices that were issued. However, unless the price of the Class "A" common shares drops below approximately $8⅞ before August 19, 1987, it would appear to be in the interest of the shareholders to convert their 6½% Convertible Preferred Shares into Class "A" common shares.

Act Amendments

During the second quarter, the Government and Legislature of Alberta acted to amend the Special Act under which NOVA is incorporated. The amendments require the Corporation to come under the Alberta Business Corporations Act and enjoy the ordinary rights of a corporation under that Act.

The amendments also provide for redemption of the Class "B" common shares (of which there are only 1,716 outstanding). Class "A" common shares will become ordinary common shares with full voting rights and will be the only common voting equity of the Corporation.

The amendments provide safeguards to the Corporation's long-term independence including a provision that while any person may acquire NOVA common shares, the voting rights attached to such shares held by any one person or any group of associated persons are restricted to no more than 15% of the votes attached to all voting shares.

The Board may be enlarged to up to 20 directors. A majority of the directors must be residents of Alberta thus enabling the Corporation to have directors from outside Alberta. This will be helpful in our international trade and national size of operations.

All these new arrangements will be in place when the Corporation files for continuance under the Alberta Business Corporations Act which is expected to be completed in early September.

August 4, 1987

NOVA
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NOTICE OF ANNUAL MEETING

ANNUAL MEETING REPORT

The following are the remarks made by NOVA Chairman and Chief Executive Officer Robert Blair at the Corporation's annual meeting on June 18, 1987.

Most of the businesses in which NOVA operates continue to experience low product prices in 1987. Natural gas production, gas transmission returns, our petrochemical commodities, and equipment and engineering for international pipeline development all currently receive prices below the 1980 level.

Some price improvement has occurred recently in polyethylene, and this commodity is highly important to our Novacor Chemicals unit which is now the largest producer in Canada. The price for crude oil sales has also strengthened for the first half of 1987. However, the trend of price recovery, where it does happen, is slower than the speed with which prices came down in the 1980s, and for certain items among our products there is no reliable sign of price improvement for next year or for 1989. So we have adjusted to business worlds of low prices.

Unit costs of production or pipeline operation have been reduced considerably across many NOVA operations. Ways have been found to reduce operating expense, reduce financial expense and increase output from previous plant investment. Salaries of NOVA senior officers were reduced in early 1986, but because no general trend followed in similar companies, salaries of other employees have generally been held flat. Other cost reductions are being pursued and must still be sought energetically across our whole range of businesses. Cost efficiency is a paramount objective of successful business these days.

Capital investment by the NOVA group of companies in plant and equipment is noticeably less now than in the first years of the 1980s when it reached over $1.25 billion annually. However, the 1986 and 1987 programs continue in the respectable range of $300 to $400 million annually, principally invested within Alberta, and mainly on pipelines, petroleum, petrochemicals and in NovAtel Communications. This annual level for new investment should increase again in a year or two to meet the rising demand for new ethylene production, gas transmission capacity and other NOVA projects.

There may occur some opportunities for acquisition of gas or oil properties at economic prices, but those require a great deal of searching. Market values of oil and gas assets and market prices of oil and gas shares have not fallen in proportion to oil and gas commodity prices. The investing public and institutions believe, and demonstrate by aggressive pricing, that gas and oil assets in western Canada will obtain high value improvement in the medium-term future.

Earnings to Increase

In the meantime, under the reality of today's prices and costs, NOVA is making headway toward its management's near-term goal of restoring earnings per common share to at least the $1.00 level.

While earnings for the first quarter of 1987 were only $34 million after tax, which left 9¢ per common share, we believe that the other three quarters of 1987 will probably each exceed 15¢ per common share and trend upwards. There has been a large increase in the number of common shares of NOVA outstanding during the year, to about 187 million shares at present. Therefore, to meet quarterly earnings exceeding 15¢ per common share requires equalling the best ever results—in terms of dollar amount of net income to common shares—that the Corporation achieved in its record year of 1980. To our best available information, that should occur this year.

The stock market price of NOVA Class "A" or common shares has begun to recover in 1987, from $6 per share on January 1 to about $9 at present. The markets are acknowledging existing and prospective improvement of financial performance. Analysts are publishing "buy" recommendations on NOVA, basing their opinions on a number of

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general strengths of the Corporation and particularly on its competitive strength internationally as an efficient producer of polyethylene resins.

Share Structure Improved

The markets showed favour, by a small uptick in NOVA's share price last week, for the Act of the Alberta legislature that amended our Corporation's Act of Incorporation. This Bill 55 received third reading and Royal Assent yesterday. The principal changes it will bring about, when NOVA files to come under the Alberta Business Corporations Act (ABCA), will be provision of full voting rights to all common shareholders and a more conventional arrangement for election of the Board. Then the Board can have as many as 20 directors, of whom four will be appointed by the Government of Alberta, as has been the case for many years, but the others will all be elected by the common shareholders. These changes will be put in place as soon as the necessary documents can be prepared for the ABCA filing, which should be complete in two months.

At that time, the name of the Corporation will change slightly to "NOVA Corporation of Alberta", which is seen as a style more familiar to international markets.

The provision of full voting rights to the Class "A" shares removed any further purpose for the Class "B" shares of the Corporation; these will therefore be redeemed. The 81 companies in the natural gas industry which have held the "B" shares have sent some representatives to this and previous annual meetings to keep the business of the meetings in order and have furnished, through their nominations and discussion with management, many directors for the Board of NOVA. Under the amended Act, there will at all times continue to be no less than four directors having experience in gas production.

The goodwill and co-operation of the Class "B" shareholding companies are acknowledged with high appreciation. One feature of NOVA is its long-term, good relationship with the gas producing and shipping industry in Alberta, assisted in the 1980s by NOVA's ability to regularly reduce return rates and, dependent on gas volumes, to reduce unit charges for gas transmission. We will continue to work hard to those ends.

The amendments do not limit share ownership in NOVA but provide that no shareholder may cast more than 15% of the common share votes and also that the Corporation cannot be merged or amalgamated except with permission of the Government of Alberta.

Operations Strengthened

There were two negotiations for NOVA which concluded in the first quarter of 1987.

One was Novacor Chemicals' purchase of the Canadian polyethylene plant and business of Union Carbide which was coupled with some improvement of Novacor's marketing and license agreements with that company. This purchase strengthened Novacor's position in both production and product lines.

The other negotiation brought a group of particularly strong and active corporate investors into Husky Oil Ltd. on a joint control footing with NOVA. The several publicly traded and private investor entities in the new group are led by Mr. Li Ka-shing of Hong Kong, one of the business and financial leaders in the Pacific Basin economic region.

For its part, NOVA has the right to name as many directors to Husky as the other shareholders in total and will control a 43% block of Husky common shares through a holding company. With the equality of position on the Board and a substantial equity investment, which will not be less than a 24% ultimate interest in Husky, NOVA will continue to participate actively in Husky's future as a private, independent, integrated petroleum company. Husky's ownership is still majority Canadian overall, its management continues in place, and its future

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NOTICE OF ANNUAL MEETING

actions as a petroleum operator and investor are intended to increase substantially.

Appointments

Among those who work for NOVA, I welcome today Mr. Ron Coleman as a new director.

I also record the appreciation of the Board and the Corporation generally for the intense 15-year effort of the former senior officer, Ms. Dianne Hall, who chose to move on to new career and personal choices in May. The NOVA building in Calgary and many of the personnel and administrative procedures, as well as some of the financings, were her work. For many years, Ms. Hall worked more closely with shareholders than any other officer, as part of her assignments. I ask her to stand for recognition in this shareholders' meeting.

I record also the retirement at the end of 1986 of Mr. William Rankin, who provided good years of overall direction to the financial functions of NOVA, which are always maintained to high standards professionally. The later resignations of Vice President and Controller John Patterson, moving on to a larger job; of Vice President and General Counsel Georges Dubé, moving to a law firm; and of Vice President Ed Lemieux, retiring soon, were accepted with high respect for their contributions to those standards.

The recruitment in 1986 of two executive vice presidents, William Wilson, who is now chief financial officer, and James Butler, who is our petrochemicals chief executive, has been followed by thorough assumption of responsibility by both of these colleagues, so that they are no longer to be described as newcomers to NOVA.

Another recruitment in recent weeks has been that of John Howard, appointed chief executive of Novalta Resources, a gas production company which is a fair-sized and growing unit in the NOVA group.

As well as referring to these changes among the leading management levels in NOVA, I thank publicly the 7,000 full-time employees, contracted and professional staff members who make this Corporation go, year round, some of whom never happen to be named individually in an annual meeting, no matter how often they may succeed or receive promotions at other levels. In such company, a management person can carry forward competitive efforts effectively anywhere, at any time, in the business interests of NOVA.

QUESTIONS

Mr. Blair's remarks were followed by a question and answer session. Because of space limitations, only a few of the questions are provided here, and they have been edited for length.

QUESTION. Could you explain the new one-class shares of NOVA?

ANSWER. The ordinary, or common, shares of NOVA, at the time that NOVA goes under the provisions of the Alberta Business Corporations Act, will be simple common equity of the Corporation having full voting rights in all matters including the election of the Board of Directors, having the normal equity interest of common shares, and having no complications attached. They will be the simplest, most direct, straightforward type of common equity.

Of course, they always have been the basic equity of the Corporation from the beginning. Now, that equity finally has its full recognition as the base of voting authority in the Corporation. It's intended that they will be the only common equity of the Corporation. There will not be another class of partial or non-voting shares.

QUESTION. Do Dome Petroleum's difficulties have any effect on NOVA?

ANSWER. When a situation is very big and complex, I like to try to give a short answer and then expand on it. The short answer, really, is that NOVA's financial position and performance are not challenged in the slightest by Dome Petroleum's difficulties. We have a certain amount of business

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with Dome Petroleum but we have no exposure of any substance in our accounts with them. Everything is settled on an entirely satisfactory basis, and there is no danger to NOVA arising from Dome Petroleum's difficulties.

There is something else in all this though. We have here one of the largest gas-producing and liquid-producing companies in Canada, one of the best-known internationally in the stock markets, one of the most active and vocal companies over many years, seen as being in a position of not being able to do what it has contracted to do in the past. That has not been great for the reputation of Canadian companies abroad, and there are a lot of suppliers who have reason to be concerned about what happens with Dome, including big institutions which have supplied money to Dome. It would be great if all this was resolved and the sooner the better. The sooner this image of a major Canadian oil company in serious trouble is removed, the better for the community and the industry in all ways.

QUESTION. Did the Husky shareholders get a fair deal?

ANSWER. Well, the biggest Husky shareholder was NOVA and, of course, we believe that NOVA got a fair deal. We negotiated hard with people who also know how to negotiate hard, the new investors. But we negotiated; we got the new investors to increase their offer a couple of times. They got us to reduce our initial asking price a bit. In the end, I think we got a fair deal for NOVA as a shareholder, and we were extremely careful to provide for the interest of the other shareholders in Husky.

I think the completeness with which a committee of directors of Husky was established and operated—a committee of directors of Husky who were not in any way employees of NOVA or under other contract to NOVA—was exceptional. That committee was established under the chairmanship of Mr. Bill Dickie. The thoroughness of its work, its reference to its own independent counsel and investment banking advice was, I believe, as complete as there ever has been. Some others have said that committee's work should be a model for other companies in the future. I was very proud of their work. Everybody did their best, and yes, we believe that all the Husky shareholders got a fair deal.

QUESTION. Has NOVA considered spinning off its subsidiaries in the oil and gas industry into a separate public company in the future?

ANSWER. The short answer is yes; that idea has been discussed and careful attention will be given to that idea in the future. NOVA has an interest in two oil and gas companies: The interest in Husky which is run by Art Price, president and chief executive officer; and also NOVA has, at this stage, outright ownership of Novalta Resources, to which I've referred in the context of John Howard's recent arrival as president and chief executive officer.

Art Price and John Howard are both noticeably aggressive oil company presidents who will want to build those organizations in the best interests of those organizations and their shareholders. I'm sure they will do that energetically and actively.

There may well be times in the future when some rearrangement of NOVA's share position in either or both of those companies will be thought out by NOVA's corporate officers and the managements of those companies. The idea that in the future this may be a base of some spinning off is a good idea, but no such decision or plan has yet been made and there are some other things we may want to do first, particularly to see those two companies really off to the fastest growth that they can achieve from the present base.

QUESTION. Is there any thought of planning the operation for higher dividends and less expansion?

ANSWER. Thank you for a really good question. NOVA's Board of Directors and management have always been and are today very much aware of the community of shareholders that has given the Corporation a loyalty and consistency of shareholder participation and support, I think, that is unmatched in western Canada. We have a large group, many thousands of persons who have been shareholders

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for more than 30 years. I doubt if there is another large company in western Canada that has such a large community of long-term shareholders.

While it is true that over the years—as in most companies of this kind—the ownership of common shares has migrated considerably to institutions, trust companies, banks and pension funds, which hold well over 70% of the shares of NOVA and which buy and sell those shares and hold them for their institutional investment policies from time to time, we also have, in total, counting common and preferred shareholders, individuals numbering in the tens of thousands with shares in the Corporation. We think of their position as well as the big institutions.

The preferred shares, of course, simply pay the preferred share dividend exactly as contracted at all times. We have had to defend the common share dividend sometimes in recent years, because we had difficulty in keeping the earnings to common shares up to the level of the common share dividend in the last couple of years. We stayed with the common share dividend as a matter of policy. We never reduced it. It tripled over a period of 10 years, and then stayed flat for five years.

So we have not been in mind to increase the common share dividend rate in this last four or five years; the job has been to maintain it. We have maintained it; we got through the most difficult period. We would want to see earnings build up again to significantly higher than the common dividend rate before we increase the common dividend. When they do build up to that level, prompt and enthusiastic attention will be given to considering an increase in the common dividend rate, but it may be another year or two before we get to that point.

Part of your question, sir, had to do with more emphasis on the dividend, less on capital expenditure. It is quite true, we did press very heavily in capital expenditure for that 10-year period from about '72 to '82 when the Corporation grew in size by 10 - 15 times in assets, sales and income. We have, in any case, de-emphasized capital growth in the last years, feeling we had largely achieved the size of company that we thought would be most effective for its shareholders. So there will be a tendency in the future for less emphasis on capital investment growth in any case.

I think we will always have to balance the two questions—how much we keep on growing in the long term, and how much we pay out in common dividends. But we sure will be thinking constantly about the common dividend desires.

QUESTION. I know the Corporation has split its common shares twice. For each common share that was originally bought, how many shares does it represent today?

ANSWER. Twelve. In addition to that, the value from the beginning has gone up about 21 times per common share. But we will try to do better. These last years have not been years of as much accomplishment for the common shareholders as we wished. We'll try to produce better results in the next several years.

Corporate Officers

S. Robert Blair
Chairman and
Chief Executive Officer

H.J. Sanders Pearson
Vice Chairman of the Board

Robert L. Pierce
President

William G. Wilson
Executive Vice President and
Chief Financial Officer

James H. Butler
Executive Vice President

Bruce W. Simpson
Senior Vice President

Richard C. Milner
Vice President, Treasurer and
Corporate Secretary

John W.F. Cowell
Vice President

Alex W. Kabatoff
Vice President

Brian F. Olson
Vice President

Joan A. Dennis
Assistant Secretary and
Secretary to the Board

Thomas G. Milne
Assistant Treasurer

Shareholder Information

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Company has a Dividend Reinvestment and Share Purchase Plan that provides common and preferred shareholders with an opportunity to reinvest their cash dividends in Class "A" common shares at 95% of the weighted average price of Class "A" shares sold on The Toronto Stock Exchange on the dividend payment date. Shareholders may also make optional cash payments and acquire additional Class "A" shares without paying brokerage commissions.

Those wishing to obtain further information about the plan may contact: National Trust Company, Corporate Trust Services, Suite 1008, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 3B2. Telephone (403) 263-1460.

The Dividend Reinvestment and Share Purchase Plan is not available to residents of the United States of America or any of the territories or possessions thereof.

INQUIRIES

Shareholders and others wishing to obtain additional information about the Company and its operations may direct inquiries to senior officers of the Company at the head office address in Calgary or call the Company's toll-free number in Canada: (800) 661-8686.

RAPPORTS EN FRANÇAIS

Veuillez vous adresser au secrétaire de la Compagnie si vous désirez recevoir un exemplaire de la version française de ce rapport.

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NOVA, AN ALBERTA CORPORATION

Condensed Consolidated Balance Sheet

(Unaudited except for December 31, 1986; thousands of dollars)

	June 30 1987	December 31 1986	June 30 1986
Assets			
Current assets	$ 569,416	$ 963,255	$ 815,206
Long term investments	743,330	505,318	183,686
Plant, property and equipment (net)	3,226,475	3,217,531	4,890,521
Other assets	68,387	76,848	77,584
	$4,607,608	$4,762,952	$5,966,997
Liabilities			
Current liabilities	$ 523,698	$ 638,489	$ 782,458
Long term debt	2,147,381	2,390,999	2,621,834
Deferred income taxes	60,690	53,583	455,775
Deferred gain	55,207	57,535	59,947
Minority interest in subsidiary companies	327,056	146,731	625,253
	3,114,032	3,287,337	4,545,267
Shareholders' Equity			
Preferred shareholders—non-convertible	396,317	398,379	397,988
—convertible	171,295*	428,529	452,522
Common shareholders	925,964	648,707	571,220
	1,493,576	1,475,615	1,421,730
	$4,607,608	$4,762,952	$5,966,997

*Called for redemption on August 24, 1987.

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Consolidated Statement of Income

(Unaudited; thousands of dollars except for per share data)

	Total	
Six Months Ended June 30	1987	1986
Revenue—Operating revenue	$1,070,337	$1,428,320
Intersegment revenue	—	—
	1,070,337	1,428,320
Costs and expenses		
Operating expenses	732,046	989,923
Intersegment expenses	—	—
Depreciation and depletion	87,206	146,885
Petroleum and gas revenue tax	—	(16,795)
Loss on foreign currency translation	7,652	12,111
	826,904	1,132,124
Net operating income	243,433	296,196
Equity in earnings (losses) of affiliated companies	7,603	(8,379)
Allowance for funds used during construction	1,245	2,091
	8,848	(6,288)
Income before the undernoted items	252,281	289,908
Other (income) expenses	11,102	3,956
Interest expense (net of interest income and interest capitalized during construction: 1987—$6,095; 1986—$25,541)	122,430	146,513
Income before income taxes and minority interest	118,749	139,439
Income taxes—Current	4,178	15,962
Deferred	29,994	33,618
	34,172	49,580
Income before minority interest	84,577	89,859
Minority interest	5,990	26,569
Net income	78,587	63,290
Less preferred share dividend entitlement	33,744	42,358
Net income available to common shareholders	$ 44,843	$ 20,932
Average number of common shares outstanding (thousands)	162,727	132,196
Earnings per common share		
Basic	$ 0.28	$ 0.16
Fully diluted	$ 0.27	$ 0.16

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Gas Transportation & Marketing		Petroleum		Petrochemicals		Manufacturing	
1987	1986	1987	1986	1987	1986	1987	1986
$543,023	$666,031	$21,756	$336,172	$444,413	$367,819	$61,145	$58,298
5,829	878	4,985	6,523	—	—	—	—
548,852	666,909	26,741	342,695	444,413	367,819	61,145	58,298
328,986	435,108	20,888	209,061	328,572	292,749	53,600	53,005
357	2,717	26	426	10,431	4,258	—	—
47,979	47,739	5,517	66,857	31,310	29,738	2,400	2,551
—	—	—	(16,795)	—	—	—	—
4,157	5,146	908	3,651	2,587	3,314	—	—
381,479	490,710	27,339	263,200	372,900	330,059	56,000	55,556
167,373	176,199	(598)	79,495	71,513	37,760	5,145	2,742
—	—	11,896	—	392	(2,196)	(4,685)	(6,183)
1,245	2,091	—	—	—	—	—	—
1,245	2,091	11,896	—	392	(2,196)	(4,685)	(6,183)
$168,618	$178,290	$11,298	$ 79,495	$ 71,905	$ 35,564	$ 460	$ (3,441)

Note: Income taxes are provided on income from Gas Transportation & Marketing and certain Petrochemicals operations only to the extent that they are included in allowable costs of service under such contracts.

Consolidated Statement of Changes in Financial Position

(Unaudited; thousands of dollars)

Six Months Ended June 30	1987	1986
Operating activities		
Funds provided from operations	$201,606	$279,789
Other	(69,823)	(78,659)
	131,783	201,130
Financing activities		
Long term debt additions	23,773	59,413
Common shares issued	20,683	13,190
	44,456	72,603
Investment activities		
Proceeds on sale of subsidiary	358,998	—
Proceeds on sale of head office building	—	157,500
Other	3,502	371
	362,500	157,871
Total cash resources provided from operating, financing and investment activities	538,739	431,604
Investments		
Plant, property and equipment additions	98,532	171,478
Other assets and long term investments	50,796	24,042
	149,328	195,520
Financial obligations		
Repayment of bank indebtedness	—	154,625
Long term debt repayments	271,070	54,916
Preferred shares of subsidiaries redeemed	26,393	225
Preferred shares purchased for cancellation	6,395	9,368
Dividends—shareholders	68,306	68,948
—minority shareholders	5,403	11,124
Other	2,891	(55)
	380,458	299,151
Total cash resources used for investments and financial obligations	529,786	494,671
Increase (decrease) in cash position	8,953	(63,067)
Cash position at beginning of period	(28,579)	(26,371)
Cash position at end of period	$ (19,626)	$ (89,438)
Cash and short term deposits	$ 45,863	$ 57,627
Bank loans	(65,489)	(147,065)
Cash position at end of period	$ (19,626)	$ (89,438)

AR17

NOVA
AN ALBERTA
CORPORATION

NOTICE OF ANNUAL MEETING

NOVA, AN ALBERTA CORPORATION

Financial Information for Husky Oil Ltd.

(Unaudited; millions of dollars)

CONDENSED BALANCE SHEET

(At June 30, 1986)	
Assets	
Current assets	$ 317.5
Long term investments	26.0
Plant, property and equipment (net)	1,576.1
Other assets	9.8
	$1,929.4
Liabilities & Shareholders' Equity	
Current liabilities	$ 285.5
Long term debt	222.4
Deferred income taxes	387.3
Shareholders' equity	1,034.2
	$1,929.4

CONDENSED INCOME STATEMENT

(Six Months Ended June 30, 1986)	
Operating revenue	$ 324.3
Net operating income	$ 80.6
Interest (net)	(6.0)
Income taxes	(26.5)
Net income	$ 48.1

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NOVA

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Calgary, Alberta, Canada
T2P 2N6
Head Office:
801 Seventh Avenue S.W.
Telephone,
(403) 290 6000

Printed in Canada

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NOVA
AN ALBERTA
CORPORATION

NOTICE OF ANNUAL MEETING

NOTICE is hereby given that the Annual Meeting of NOVA, AN ALBERTA CORPORATION (the "Corporation") will be held at the Palliser Hotel, 133 Ninth Avenue S.W., Calgary, Alberta, on Thursday, June 18, 1987, at 10:30 o'clock in the forenoon, Calgary time, for the following purposes, namely:

1. to receive the financial statements of the Corporation for the year ended December 31, 1986 and the reports of the Directors and the Auditors;
2. to elect certain Directors as provided in the NOVA, AN ALBERTA CORPORATION Act;
3. to appoint Clarkson Gordon as the Auditors; and
4. to transact such other business as may properly be brought before the Meeting.

Only holders of Class "A" common shares and holders of Class "B" common shares of record at the close of business on May 11, 1987 are entitled to notice of, and to attend, the Annual Meeting.

Details of the limited voting rights attaching to the Class "A" common shares and to the Class "B" common shares respectively are set forth in the accompanying Information Circular.

By Order of the Board of Directors

GEORGES DUBÉ
Vice President, General Counsel
and Corporate Secretary

Calgary, Alberta
April 30, 1987

TO: Holders of Class "A" common shares

If you are unable to attend in person, please complete and sign the enclosed form of proxy and forward it in the enclosed self-addressed envelope to the Corporate Secretary of the Corporation, c/o National Trust Company, 150 Toronto Dominion Square, Calgary, Alberta T2P 9Z9, to reach that address no later than 5:00 o'clock in the afternoon, Calgary time, on Wednesday, June 17, 1987.

NOVA
AN ALBERTA
CORPORATION

INFORMATION CIRCULAR

GENERAL

This Information Circular is furnished in connection with the solicitation of proxies by the management of NOVA, AN ALBERTA CORPORATION (the "Corporation") for use at the Annual Meeting to be held on Thursday, June 18, 1987 at 10:30 o'clock in the forenoon, Calgary time, at the Palliser Hotel, 133 Ninth Avenue S.W., Calgary, Alberta and at any adjournment thereof. Enclosed is a form of proxy for use at the Annual Meeting. A copy of the Annual Report and Financial Statements of the Corporation for the fiscal year ended December 31, 1986 to be presented to the Annual Meeting, is also enclosed.

Pursuant to the By-laws of the Corporation, instruments of proxy must be received by the Corporate Secretary of the Corporation, c/o National Trust Company, 150 Toronto Dominion Square, Calgary, Alberta T2P 9Z9 no later than 5:00 o'clock in the afternoon, Calgary time, on Wednesday, June 17, 1987.

REVOCABILITY OF PROXY

An instrument of proxy may be revoked by the person giving it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Annual Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or his attorney authorized in writing and deposited either at the head office of the Corporation, 801 Seventh Avenue S.W., Calgary, Alberta T2P 2N6 at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of such Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PERSONS MAKING THE SOLICITATION

The solicitation is made on behalf of the management of the Corporation and the costs thereof will be borne by the Corporation. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited by personal interviews, telephone or telegraph, by directors, officers and employees of the Corporation.

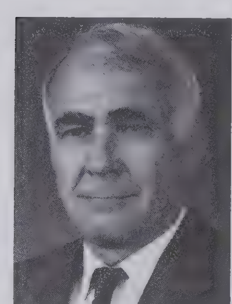
CLASS "A" COMMON SHARES AND PRINCIPAL HOLDERS THEREOF

At the date of this Information Circular, the Corporation has outstanding 153,516,050 Class "A" common shares. Each Class "A" common share confers upon the holder the right to one vote for the purpose only of electing seven Directors. Only holders of Class "A" common shares of record at the close of business on May 11, 1987 are entitled to notice of, to attend, and to vote for seven Directors at the Annual Meeting. Each of the four Class "B" common Group IV shares also confers upon the holder the right to one vote in such election. At the date of this Information Circular, no person or company, to the knowledge of the Directors or senior officers of the Corporation, beneficially owns, directly or indirectly, Class "A" common shares carrying more than 10% of the voting rights attached to all Class "A" common shares of the Corporation.

ELECTION OF DIRECTORS

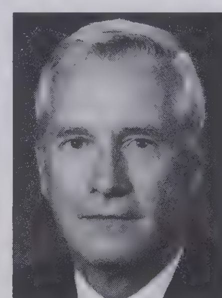
The NOVA, AN ALBERTA CORPORATION Act provides for a Board of Directors consisting of fifteen persons. The information given herein with respect to each of the Directors is based upon information furnished to the Corporation by such Director.

Seven Directors are to be elected at the Annual Meeting by the holders of Class "A" common shares and by the holders of the four Class "B" common Group IV shares to hold office until the next Annual Meeting or until their successors are elected or appointed. Each person proposed to be nominated for election by the holders of Class "A" common shares and by the holders of the four Class "B" common Group IV shares is set forth immediately below and is currently a Director of the Corporation. Proxies in favour of the persons named in the accompanying form of proxy will be voted in favour of the election as Directors of the seven persons as set forth. The management does not contemplate that any of the nominees will be unable to serve as a Director but, if that should occur for any reason prior to the Annual Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. The number of Class "A" common shares beneficially owned, directly or indirectly, or over which control or direction is exercised by each Director is as follows: S. Robert Blair, 104,000; Arthur J.E. Child, 20,000; Harley N. Hotchkiss, 18,000; William A. Howard, 7,074; Peter L.P. Macdonnell, 1,500; H.J. Sanders Pearson, 2,280; Robert L. Pierce, 24,401.



** **S. Robert Blair** served initially as a non-management Director of the Corporation during the 1960's, then entered full-time management of the Corporation in December, 1969. He is Chairman and Chief Executive Officer of the Corporation and resides in the City of Calgary.

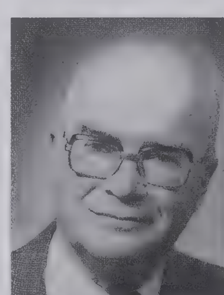
** **Arthur J.E. Child** has been a Director of the Corporation since July 17, 1972. He resides in the City of Calgary and is the Chairman and Chief Executive Officer of Burns Foods Limited, a company engaged in food processing.



* **Harley N. Hotchkiss** has been a Director of the Corporation since May 11, 1979. He resides in the City of Calgary and is President of Harman Resources Ltd., and other private companies investing in oil and gas, real estate and agriculture. He also serves on the Boards of Conwest Exploration Company Limited and Calgary Flames Hockey Club Ltd.

** **William A. Howard** has been a Director of the Corporation since May 13, 1977. He is a senior partner in the law firm of Howard, Mackie, and resides in the City of Calgary. He also serves on the Boards of Bow Valley Industries Ltd., SNC Enterprises Ltd., Ranchmen's Resources Ltd. and Trilogy Resource Corporation.

* **Peter L.P. Macdonnell** has been a Director of the Corporation since July 17, 1972. He is a partner in the law firm of Milner & Steer, and resides in the City of Edmonton. He also serves on the Boards of Alberta Energy Company Ltd., CAE Industries Ltd., Echo Bay Mines Ltd., Vencap Equities Alberta Ltd., IU International Corporation, and a Canadian chartered bank.



** **H.J. Sanders Pearson** is Vice Chairman of the Board of the Corporation. He has been a Director of the Corporation since July 17, 1972. He resides in the City of Edmonton and is Chairman of Century Sales & Service Limited, a company engaged in the distribution of industrial tools and fasteners. He also serves on the Boards of Mutual Life Assurance Co. of Canada, TransAlta Utilities Corporation, Prudential Steel Ltd., Novacor Chemicals Ltd., The Alberta Gas Ethylene Company Ltd. and Energy Holding S.p.A.

Robert L. Pierce is President of the Corporation. He has been a Director since May 13, 1977. He resides in the City of Calgary. He also serves on the Board of a Canadian chartered bank.

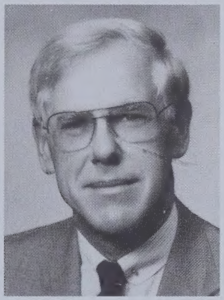
Four Directors are to be elected at the Annual Meeting by the holders of Class "B" common shares, voting as a class upon nominations received at the Meeting, to hold office until the next Annual Meeting or until their

*Member of the Audit Committee.

**Member of the Management Resources and Compensation Committee.

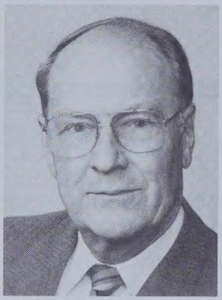
successors are elected or appointed. The Class "B" common shares are divided into four groups. Groups I, II, III and IV are allocated to, respectively, utility companies, gas export companies, gas producers and four Directors appointed by the Lieutenant Governor in Council of Alberta. At the date of this Information Circular, the Corporation has outstanding 1,716 Class "B" common shares.

The Directors presently in office and who have been elected by the holders of Class "B" common shares are those persons set forth immediately below. Each such Director has held his present principal occupation or executive position with the same or associated firms for the past five years except in the case of Edward W. Best and R. Harold Carlyle. The number of Class "A" common shares beneficially owned, directly or indirectly, or over which control or direction is exercised by each Director is as follows: Edward W. Best, 962; Fred A. McKinnon, 5,214; R. Harold Carlyle, nil.



Edward W. Best has been a Director of the Corporation since January 24, 1986. He resides in the City of Calgary and is a partner in the firm Foster Research, a partnership engaged in management and economic consulting. Prior to June, 1985 he was President of the Oil and Gas Division of BP Canada Inc. He also serves on the Boards of Canterra Energy Ltd., Canadian Worldwide Energy Ltd. and Fishery Products International Ltd.

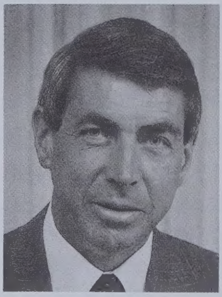
* **Fred A. McKinnon** has been a Director of the Corporation since January 10, 1975. He is retired from BP Canada Inc., and resides in the City of Calgary. He also serves on the Boards of Fluor Canada Ltd., Prairie Oil Royalties Company Ltd., Novalta Resources Ltd. and Deb Explorations Ltd.



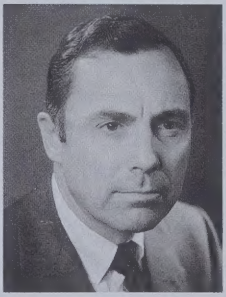
R. Harold Carlyle has been a Director of the Corporation since May 1, 1986. He resides in the City of Calgary and is retired from Gulf Canada Resources Inc. Prior to November 30, 1985 he was President of Gulf Canada Resources Inc. and prior to September 1, 1984 he was Senior Vice President of Gulf Canada Resources Inc.

Four Directors are appointed by the Lieutenant Governor in Council of Alberta. The Directors presently in office and who have been appointed by the Lieutenant Governor in Council are set forth immediately below. Each such Director has held his present principal occupation or executive position with the same or associated firms for the past five years. The terms of appointment of John R. McCaig and Daryl K. Seaman will expire at the termination of the Annual Meeting in 1988. The terms of appointment of William H. Comrie and J. Joseph Healy will expire at the termination of the Annual Meeting in 1989 and 1990, respectively . The number of Class "A" common shares beneficially owned, directly or indirectly, or over which control or direction is exercised by each Director is as follows: J. Joseph Healy, 1,200; John R. McCaig, 9,677; Daryl K. Seaman, 81,900; William H. Comrie, nil.

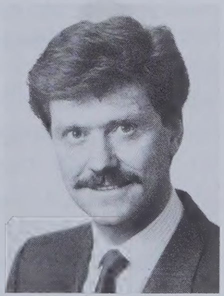
J. Joseph Healy has been a Director of the Corporation since April 19, 1977. He resides in the City of Edmonton and is the President of Healy Motors Limited, a company engaged in transportation. He also serves on the Board of NovAtel Communications Ltd.



* **John R. McCaig** has been a Director of the Corporation since July 17, 1972. He resides in the City of Calgary and is the Chairman and Chief Executive Officer of Trimac Limited, a company engaged in transportation and energy resources.



** **Daryl K. Seaman** has been a Director of the Corporation since April 9, 1973. He resides in the City of Calgary and is Chairman of Bow Valley Industries Ltd., a company engaged in natural resource services, exploration and development. He also serves on the Boards of Vencap Equities Alberta Ltd., Pan-Alberta Gas Ltd., and Bio Technica International of Canada, Inc.



William H. Comrie has been a Director of the Corporation since May 1, 1986. He resides in the City of Edmonton and is Chairman of The Brick Warehouse Ltd., a company engaged in the marketing of retail furnishings. He also serves on the Board of the Edmonton Eskimos Football Club.

*Member of the Audit Committee.

**Member of the Management Resources and Compensation Committee.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

The following Director and senior officers are indebted to the Corporation or its subsidiaries in the manner and to the extent set forth in the table below in respect of the purchase of Class "A" common shares purchased under the Executive Share Option Plan:

Director or senior officer	Largest aggregate amount of indebtedness in 1986	Current outstanding amount of indebtedness	Interest rate
Robert L. Pierce	$1,723,288	Nil	Nil
John E. Feick	$ 438,482	Nil	Nil
Bruce W. Simpson	$ 161,875	Nil	Nil
Donald G. Olafson	$ 186,675	Nil	Nil

All the above individuals reside in the City of Calgary.

STATEMENT OF EXECUTIVE COMPENSATION

(a) For the purposes of this Statement, "executive officer" of the Corporation means the chairman of the board of directors, the president, any vice president in charge of a principal business unit such as sales, finance or production and any officer of the Corporation or a subsidiary who performs a policy-making function in respect of the Corporation whether or not such officer is also a director of the Corporation or the subsidiary.

(b) CASH

The aggregate cash compensation paid by the Corporation and its subsidiaries to the twelve executive officers of the Corporation for services rendered during 1986 (including salaries, fees, directors' fees but excluding bonuses) was $2,155,383.

(c) PLANS

(i) Bonus Plan

Bonuses were paid in 1986 in respect of 1985 under an informal plan or arrangement whereby management recommends to the Management Resources and Compensation Committee of the Board of Directors of the Corporation (the "Board") the awarding of bonuses on an individual basis for the prior fiscal year. The Committee considers the recommendations of management and makes recommendations to the Board and bonuses are paid based on the Board's decision. The criteria used for the determination of the amount of any bonus are (a) the performance of the appropriate division or subsidiary of the Corporation, (b) the bonus practice in competitive companies, and (c) the individual executive, managerial, professional or administrative achievement for the Corporation made by each individual. During 1986 the sum of $40,000 was paid to one executive officer by way of bonus in respect of the calendar year 1985.

(ii) Stock Option Plan

The Incentive Stock Option Plan (1982) (the "1982 Plan") was established by the Board on September 10, 1982. The 1982 Plan provides that the Board may grant to directors, officers and employees, who are in full-time employment of the Corporation or its subsidiaries, options to purchase from treasury Class "A" common shares of the Corporation. Each of the options granted during 1986 was under the 1982 Plan and is for a term of five years from the date of the grant. In each of the three succeeding twelve months subsequent to the granting of an option the holder of an option may exercise the same as to 25% of the aggregate number of shares under such option on a cumulative basis and thereafter the option may be exercised until the expiry date of the option as to the balance of the shares granted under the option.

The criteria used for granting options to executive officers consist of (a) the number of shares under options then held by an executive officer, (b) whether or not the executive officer has been given additional responsibilities, (c) the level of responsibility given to a newly appointed executive officer,

and (d) the relative level of success or achievement of the executive officer. In all cases the granting of options is made by the Board based upon the recommendations of the Management Resources and Compensation Committee of the Board. When options are exercised the payment for the shares purchased thereunder must be made contemporaneously with the exercise of the option. The options are granted at the closing market price on The Toronto Stock Exchange on the date the grant is made by the Board.

At December 31, 1986 there were 4,486,850 Class "A" common shares allocated for the exercise of then outstanding options.

In connection with options granted to executive officers during the 1986 financial year, the following table summarizes the date of granting, the expiry date, the number of Class "A" common shares covered by options granted and the exercise price. The exercise price in each case is the market price at the date of grant as referred to above.

Date	Date of Expiry	Number of Shares	Exercise Price
May 1, 1986	April 30, 1991	218,000	$4.85
November 14, 1986	November 13, 1991	55,000	$6.125
December 12, 1986	December 11, 1991	225,000	$6.125

No options under the 1982 Plan were exercised during the 1986 financial year.

No options have been granted to, or exercised by, and no options are held by, any Director of the Corporation who is not a full-time employee of the Corporation.

(iii) Pension Plan

The Corporation contemplates entering into pension agreements with certain officers, including certain executive officers. These agreements would provide for supplementary pension payments, based on the earned pension under the Corporation's pension plan, which supplementary payments would be above those pension payments allowed by the Department of National Revenue regulations applicable to registered pension plans. The aggregate pension payments resulting from such agreements and the pension payments payable under the Corporation's pension plans would be equivalent to the benefit which is earned under the pension plan without such regulatory restrictions.

(d) TERMINATION OF EMPLOYMENT

In 1986 agreements were entered into with two executive officers. The agreement with one executive officer provides that the employment of such officer would terminate effective December 31, 1986 and such officer would receive an annual allowance subject to certain terms and conditions including the obligation to provide services to the Corporation for a period of time and such allowance decreases upon the completion of such services. The agreement with the other executive officer provides that, subject to certain conditions, such officer would receive a termination allowance upon the termination of such officer's employment in 1987. The aggregate cost to the Corporation in 1987 in respect of these two agreements would be $647,682.

(e) COMPENSATION OF DIRECTORS

A retainer fee of $531 per month is paid to all Directors of the Corporation other than persons who are full-time employees of the Corporation. Meeting fees are paid to each Director (including the Chairman of the Board and the President who are full-time employees) on the basis of $510 for each meeting attended. Members of the Management Resources and Compensation Committee of the Board and the Audit Committee of the Board were paid $510 for each committee meeting attended except in the case of the chairman of each such Committee, to each of whom a fee of $1,530 (including the $510 member fee) is paid for each meeting attended. Effective May 1, 1986 all retainer and meeting fees payable to Directors were reduced by 15% resulting in the foregoing amounts.

(f) OTHER COMPENSATION

The aggregate value of all other compensation paid in 1986 to executive officers does not exceed the lesser of $10,000 times the number of executive officers or 10% of the aggregate cash compensation of the executive officers as a group.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

A substantial portion of the Corporation's consolidated net operating income is derived from the operation of gas transportation services. The Corporation provides gas transportation services primarily under cost of service transportation contracts and its principal customers are: TransCanada PipeLines Limited, Alberta and Southern Gas Co. Ltd., Pan-Alberta Gas Ltd., Consolidated Natural Gas Limited, ProGas Limited, Sulpetro Limited, Westcoast Transmission Company Limited, Many Islands Pipe Lines (Canada) Ltd., ICG Resources Ltd. and Westcoast Transmission Company (Alberta) Ltd. Gas export companies which are holders of Class "B" common Group II shares join with the other holders of Class "B" common shares in electing four Directors.

By Order of the Board of Directors

GEORGES DUBÉ
Vice President, General Counsel
and Corporate Secretary

Calgary, Alberta
April 30, 1987

MCARA PRINTING LIMITED
Calgary, Alberta, Canada